

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EB-07 TRSE-00 OMB-01 FCSC-01 PM-04

NSC-05 SP-02 SS-15 L-03 H-02 CIAE-00 INR-07 NSAE-00

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FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC PRIORITY 4476

C O N F I D E N T I A L BUDAPEST 3398

E.O. 11652: GDS

TAGS: EFIN, HU

SUBJ: WORLD WAR I AND THE JOHNSON ACT

REFS: A. BUDAPEST 3063, SEPT 19, 1975

B. BUDAPEST 2917

C. BUDAPEST 3064, SEPT 19, 1975

D. STATE 099936, PARA 6 (APRIL 29, 1975)

1. LASZLO NAGY, FONOFF ACTING DIRECTOR DEPT V, CALLED IN DCM LATE AFTERNOON OCT 16 TO ASK FOR EMBASSY'S ASSISTANCE IN OBTAINING: A) REPLY TO APRIL 1975 GOH REQUEST TO DEPT ON HOW HUNGARY COULD SETTLE ITS WWI DEBT; AND B) LETTER CONFIRMING EARLIER INFORMATION, RECEIVED ORALLY IN WASHINGTON, THAT ONLY WWI DEBT PREVENTS REMOVAL OF JOHNSON ACT RESTRICTIONS. ACTING UNDER INSTRUCTIONS, NAGY MADE ORAL DEMARCHE AND THEN HANDED DCM "INFORMAL AND UNOFFICIAL PIECE OF PAPER CONTAINING MAIN POINTS OF HIS PRESENTATION.

2. FOLLOWING ARE MAIN POINTS: A) USG FAILED TO MENTION STILL OUTSTANDING WWI DEBT DURING CLAIMS SETTLEMENT NEGOTIATIONS IN MARCH 1973; B) SUBSEQUENTLY, USG MAINTAINED IN FORCE JOHNSON ACT OF 1974 PROHIBITING LOANS AS RESULT OF WHICH GOH HAS NO DIRECT ACCESS TO U.S. MONEY MARKET NOR POSSIBILITY TO ISSUE BONDS; C) GOH REPRESENTATIVE (AKAR) CONFIDENTIAL

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WAS INFORMED IN WASHINGTON IN APRIL 1975 THAT THERE ARE

NO KNOWN RPT NO KNOWN UNSETTLED CLAIMS BETWEEN U.S. AND HUNGARY BEYOND WWI FLOUR DEBT AND, THAT AFTER SETTLEMENT OF LATTER, JOHNSON ACT WILL NO LONGER BE APPLIED AGAINST HUNGARY; D) FURTHERMORE, DEPT HAD PROMISED TO CONFIRM THIS IN A NOTE, BUT TO DATE NO SUCH CONFIRMATION HAS BEEN RECEIVED; E) GOH UNDERSTANDS USG NEEDED TIME TO TAKE NECESSARY MEASURES, BUT NOTES THAT GOH TOOK INITIATIVE ON THIS ISSUE OVER SIX MONTHS AGO; F) GOH, THEREFORE, OFFICIALLY SEEKS ASSISTANCE OF EMBASSY IN RECEIVING IN SHORTEST POSSIBLE TIME POSITIVE U.S. REPLY, NAMELY, THAT USG HAS NO FURTHER UNSETTLED CLAIMS AGAINST GOH AND THAT, AFTER SETTLEMENT OF WWI DEBT, IT WILL CEASE APPLYING JOHNSON ACT TO HUNGARY.

3. FONOFF HAS NOW RAISED WITH EMBASSY OFFICIALLY AND FORMALLY SUBJECT OF WORLD WAR I DEBT/ARREARAGES ON SALES OF OVERSEAS SURPLUSES, AND JOHNSON ACT, AND IN EXACTLY SAME VEIN AS AKAR BROACHED ISSUE INFORMALLY WITH ECONOFF ONE MONTH AGO (REF A). QUITE CLEARLY, GOH IS DETERMINED TO WIPE BILATERAL FINANCIAL SLATE CLEAN. AKAR HAS SAID SO; FINANCE MINISTER FALUVEGI RAISED MATTER WITH AMBASSADOR ON MAY 30; FALUVEGI RAISED IT AGAIN ON SEPTEMBER 4 (REF B) WITH VP WENTWORTH OF CHASE MANHATTAN ASSERTING THAT SOME (PRESUMABLY HIGH IN HSWP CIRCLES) BELIEVE THAT, DESPITE REPEATED HUNGARIAN STATEMENTS OF WILLINGNESS TO CLEAR ALL ACCOUNTS, USG HAS DECIDED AT VERY HIGH LEVEL FOR REASONS OF ITS OWN TO PRESERVE CERTAIN BARS TO TOTALLY HARMONIOUS RELATIONS SO THAT DECISION ON ST. STEPHAN REGALIA CAN BE INDEFINITELY POSTPONED. RECENTLY VILAGGAZDASAG ON OCTOBER 11 IN ARTICLE, CAPTIONED LIGHT AND SHADOW IN HUNGARIAN-AMERICAN RELATIONSHIP, PRAISED PROGRESS IN ECONOMIC FIELD IN US- HUNGARIAN RELATIONS IN AFTERGLOW OF SECRETARY OF COMMERCE MORTON'S VISIT; BUT IT ALSO OBSERVED "WANGLING OVER FEW QUESTIONS OF MINOR SIGNIFICANCE CONTINUES TO HAMPER NORMALIZATION OF FINANCIAL RELATIONS," AN UNAMBIGUOUS REFERENCE TO LACK OF REPLY TO REPEATED HUNGARIAN REQUESTS FOR RESPONSE TO ITS DEMARCHE OF WWI DEBT AND JOHNSON ACT APPLICABILITY.

4. COMMENT: WE BELIEVE GOH WISHES TO SETTLE ITS OUTSTANDING INDEBTEDNESS TO USG. IT SEEKS ACCESS TO THE U.S. MONEY
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MARKET. WE BELIEVE IT INCREASINGLY LIKELY THAT GOH DESIRE TO SETTLE FINANCIAL ACCOUNTS IS SO INTENSE THAT IT WOULD -- AFTER SOME SCUFFLING -- MAKE 100 PERCENT SETTLEMENT OF WWI FLOUR DEBT AND FULL SETTLEMENT OF SURPLUS PROPERTY ARREARAGES. WE HONESTLY BELIEVE WE SHOULD BE AUTHORIZED TO EXPLORE THIS PROSPECT. SINCE WWI FLOUR DEBT, ARREARAGES IN OVERSEAS SURPLUSES, JOHNSON ACT, AND BLOCKED ACCOUNTS ARE NOW INEXTRICABLY LINKED, WE

SHOULD ENDEAVOR TO DISPOSE OF ALL FOUR ISSUES AS A
SINGLE PACKAGE.
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